Rapid Growth of Army Stresses Need Of Better Industrial Mobilization

Use of Unlimited Force May Lead to Basic Readjustments of America's Economic Units—England's Technique for Handling Problem Full of Suggestions for This Country

WHEN the United States was still looking at the war through its mind's eye as an event 3,000 miles away the problem of the non-essential seemed largely theoretical. Conditions have changed now. The presence of an ever-increasing band of American soldiers in France—and such spectacular incidents as the recent submarine debauches off the Jersey coast—not only signalize the change, but also give color and the breath of life to it.

Every American who senses the direction in which events are moving now realizes that the relative curtailment of the non-essential is a sine qua non of victory. And therefore every one should expect a bolder attempt to be made to mobilize effectively the industrial forces of the country. The dramatic decision of Brigadier General Enoch H. Crowder, provost marshal general of the United States, to compel men of draft age to work in essential industries after July 1 or fight is merely one of the striking contributions to the solution.

Conscious effort, though indispensable, is, of course, not the only force working to make the industries of the nation frankly war units. The mere physical limitation of supplies is fast drawing the line between the essential and the non-essential. By compelling prior consideration for the needs of the government for raw materials, the United States automatically strikes at the undue growth of the non-essentials at their source.

Industrial Statesman Must Tackle Non-Essentials

But to get every foot pound of fighting power out of her industrial resources it seems certain that the United States will have to formulate a more definite plan of gearing the economic energy of the nation to the needs of the military machine. In seeking a concrete legislative and administrative technique for making the adjustment still further, the United States has much to learn from the analogous experience of Great Britain.

The clarion call for industrial statesmanship to handle the problem of the non-essential arises spontaneously from the present state the world finds itself in. Militarily, the Teuton alliance has for the moment a slight superiority. Within a year, through the robust aid of the United States, the Allies hope to gain the upper hand on the field. But the significant point, in this connection, is that, after nearly four years of incessant fighting, the military superiority of the two great groups is still in doubt. Of equal, if not greater, importance to purely military advantages are economic advantages. Here there is no doubt which side surpasses the other. The entrance of this country into the war made the economic superiority of the Allies overwhelming, so collossal, in fact, that the German High Command realizes that, if the war drags on interminably, victory for the Allies is inevitable. Hence their present bold, wild-eyed military thrust in France.

The same logic which drove the Hindenburgs and the Ludendorffs to see the need of ending the war quickly to escape defeat should guide America's course. That reasoning indicates that, if America fails to get her industrial resources on a 100 per cent war basis, she is to that extent lengthening the stay of the Kaiser on his uncertain throne. Germany realizes the menace of America's economic power; America should employ it up to the hilt.

Of course, in using "force to the utmost, without stint or limit," the United States has been thinking largely in terms of man power. The national mind grasps the fact that the Allies need a large American army to make the ultimate turning back of the Germanic invaders decisive.

Every American Soldier Deserves Unexcelled Supplies

The sending of a continuous stream of able-bodied men overseas affects the industrial problem in two major ways. First, within a year nearly 5,000,000 young men will have been taken out of industry to give battle, and, therefore, even if it were desirable, it will be impossible to carry on business as usual. On the other hand, every additional American soldier on the other side represents another cogent reason why America should make her industries more responsive to the requirements of the army and the navy.

From the beginning of the participation of this country in the great conflict the problem of the non-essential was understood, though perhaps dimly. But, just as events have made it necessary tremendously to accelerate the speed of sending troops overseas, so they have made urgent the thorough harnessing of American economic forces to the war needs.

America's task recalls the job England faced in the early part of the war. The success with which England threw her industrial cohorts into the fray and kept up productivity while borrowing men from industry for the front explains the iron resistance of the nation. America still has something to learn by studying in broad outline how England made her adjustment. But America's problems are her own and her solution must be her own.

England Industrially Was Unready for War

When the Germans induced Great Britain to enter the war by invading Belgium the island kingdom was little prepared for war, industrially as well as militarily. England was unexcelled as a manufacturing nation, but she was accustomed to make the sinews of peace, not the munitions of war. The British need was to transfer the skill and the deftness of the cotton mills to the bullet and gun factories. It called for the highest type of industrial leadership.

Only in the case of railroads was there previously existing legislative sanction for putting Great Britain on a war basis. In this instance, as far back as 1871, an act of Parliament authorized the government immediately to take over the railroads should war be declared. One of the nation's first acts after a state of war was declared was to nationalize the railroads of England, Scotland and Wales and take into the government service their entire management and personnel.

The direction of the railroads was placed in the hands of a committee composed of the general managers of the principal railroad companies. This system has continued up to the present time.

The British government promptly turned its attention to the acceleration of the output of guns, ammunition and other strictly military material. Steps were taken to add to the scant war plants by taking over all engineering and chemical works and converting them.

As the government saw its need more keenly it gradually extended its control over industry step by step until it included nearly all the industries which produced necessities for the military forces—clothing, equipment and transport. Then, too, the necessary raw materials—iron ore mines, blast furnaces and steel mills, leather, wool, cotton, jute, hemp and flax—came into the sphere of government control. To-day the government virtually dictates the use of raw materials, and manufacturers who desire them must look to it.

Island Kingdom at First Had Surfeit of Ships

England's geographic position normally emphasizes the importance of ships. In war time it makes ships prime essentials. At the beginning of the war—strange as it sounds to-day—there was not a shortage, but a surfeit of ships in British ports. Thus, in the early months of the conflict, England did not requisition ships. But the sending of a large expeditionary force to France heightened the need for ships, and the German submarine campaign tremendously decreased the tonnage available, and gradually a change of policy came until to-day the British government has requisitioned the whole British mercantile tonnage, the shipbuilding yards, the dry docks and the ship-repairing works.

In handling the food problem the British government retained the policy of laissez-faire until interference plainly became necessary. The government took its first step in this direction by taking over the entire sugar supply in October, 1914, but did little more in relation to food until the end of 1916, when wheat and flour were placed in the hands of a government commission, which eventually controlled all cereals and the milling capacity of the kingdom.

Voluntary campaigns to spur the farmers of the kingdom to unusual efforts were the extent of the government's actions in respect to agriculture until the spring of 1917, when Parliament passed an act which secured to farmers a minimum price for wheat and oats for five years and for oats for one year. Moreover, the Board of Agriculture was at this time authorized to seize from farmers or land-owners any land which was improperly or not fully cultivated. Through this legislative stroke, backed by national efforts, the arable land in England was increased by 1,000,000 acres in 1917, and in 1918 it is expected that 3,000,000 additional acres will be cultivated. A system of agricultural quotas for each county was devised to help dramatize the fight for food, and county agricultural committees, which were formed, after learning from the government what it considered would be a satisfactory increase in acreage, allocated this new acreage to the farmers.

Great Britain, in sweeping aside the vested rights of both capital and labor to meet the emergency needs, had to make many delicate adjustments. Labor, interested in the issue of the war, has been particularly amenable to reason, and has made the great industrial changes possible. When the storm broke in August, 1914, many of the British trade unions had just demanded increased wages and shorter hours. Appreciating the national need, the unions not only agreed to postpone all such demands for the duration of the war, but also agreed to a suspension of existing trade union agreements and rules where they interfered with fast production. The government agreed to restore these restrictions after the war.

Inflation Made Wage Increase Imperative

The agreement in regard to wages was feasible during the early months of the war, but between 1915 and the middle of 1917 commodity prices rose rapidly, and the value of money conversely declined. This condition made a general increase in wages indispensable. In most cases these rises which have been put into effect have been borne either by the government directly, as in the case of railroad workers, or through increased prices which the government ordered.

Capital is treated with more variation, depending on the special conditions surrounding an industry. In the case of the railroads the companies are guaranteed virtually the net revenue they earned in 1913, and they have maintained within a small fraction the dividends they paid on their stock for that year. The guarantee to canals and waterways followed the same lines.

The controlled engineering, chemical and cognate establishments are permitted to retain 20 per cent more profit than they earned in 1913, and special arrangements have been made to meet the case of new capital introduced for extensions and betterments, especially in regard to new plants which the cessation of the war will render obsolete.

Other manufacturers come under the operation of the excess profits tax, under which the government takes a share of the profits in excess of the pre-war margin, the percentage in 1915 being 50 per cent, in 1916 60 per cent, and since then 80 per cent.

The British government pays for shipping on Blue Book rates, which at present allow a very small margin of profit on the capital engaged —so small, it is reported, that, at the behest of the ship owners, the question of increasing the rate is under consideration.

The Two Great Enabling Acts

From the viewpoint of shaping American policy the legislative side of Great Britain's industrial warfare is important. The bulk of the authority for taking over industries was conferred on the government by the Defence of the Realm act and the Munitions of War act of 1915-'16.

Under the Defence of the Realm act the Admiralty, Army Council and Ministry of Munitions got authority to do the following broad things:

(a) To require that there shall be placed at their disposal the whole or any part of the output of any factory or workshop of whatever sort.

(b) To take possession of and use for the purpose of his majesty's naval or military service any factory or workshop or plant.

(c) To require any work in any factory or workshop to be done in accordance with the directions of the Admiralty or Army Council or the Ministry of Munitions, given with the object of making the factory or workshop, or the plant or labor therein, as useful as possible for the production of war materials.

(d) To regulate or restrict the carrying on of any work in any factory, workshop or other premises, or the engagement or employment of any workmen or all or any classes of workmen therein, or to remove the plant therefrom, with a view to maintaining or increasing the production of munitions in other factories, workshops or premises, or to regulate and control. the supply of metals and material that may be required for any article for use in war; and

(e) To take possession of any unoccupied premises for the purpose of housing workmen employed in the production, storage or transport of war material.

Then, in a broad way under the Munitions of War act, the Ministry of Munitions was empowered to control establishments engaged in the production of munitions by limiting employers' profits, and regulating labor conditions with regard to trade customs, disputes, hours, wages, discipline and migration. Both acts authorized the Ministry of Munitions to prevent speculation in war materials, to restrict manufacture, to fix maximum prices, to obtain returns of stocks and output, to take possession of mines and quarries, and to regulate building and construction work. The Defence of the Realm act also gives the ministry the right to issue instructions as to the priority to be given to certain classes of work.

Restrictions Put Whole People in Fight

In a general way these are the directions and the sanctions in law of Great Britain's industrial mobilization. In recent months government interference has been extended to reach the consumer. The maximum consumption of food at hotels, restaurants and clubs has been fixed by government order for some months; rationing of sugar for the whole population has been adopted and the amount of butter and meat an individual can consume is to be regulated.

The restrictions and regulations, taken as a whole, give reality to the commonplace statement that to-day warfare is carried on by nations, not merely by armies.

Interning Dame Rumor For Duration of the War

Chronic Gossipers in Wall Street Are Restrained, Though Not Completely Checked, by Bans on Spreading of Idle Reports

WAR has wrought many and varied changes in Wall Street ways. The adjustment of the financial district and its army of workers to the new order of things ushered in by the entrance of the United States into the war has gone ahead steadily and is still progressing. The process will go on until peace comes and perhaps thereafter. Banks, foreign exchange, the security and commodity markets, have all felt the hand of the war god in varying degree, and the changes that have taken place in business methods and customs in the Street would surprise the Wall Street frequenter of five or ten years ago.

Probably one of the most interesting developments in the financial district since our entrance into the war has been the attempt made by the market authorities to put the ban on the rumor-monger. In normal times the most gossipy place in the country is to be found right in the financial district where a rumor is born every minute. No small town ever had anything on Wall Street in its heyday of rumor mongering. All that had to be done was to pass the "news" quietly in a conservative way and it usually came back a few minutes later all garnished up with extravagant details. Millions of dollars have been made and lost in Wall Street on the circulation of rumors. There have been times when wild stories were deliberately concocted for stock market purposes.

Curbing Rumors Is Unprecedented on Street

Dame Rumor lately, however, has been taken in hand by the officials of the New York Stock Exchange and the New York Cotton Exchange, and while she is still to be found at large, her activities have been much restricted. On the Stock Exchange the governors recently adopted resolutions to the effect that "the circulation in any manner of rumors of a sensational character by members of the exchange or their firms will be deemed an act detrimental to the interest and welfare of the exchange."

Similar resolutions were adopted by the Cotton Exchange governing board after there had occurred a tremendous slump in cotton prices ascribed partly to rumors set afloat that the government intended to fix the price of cotton.

The effort being made to stop rumor spreading is new and has never been done before. It has been effective to a degree, although it did not prevent this week the flotation of a rumor that the German Crown Prince and 40,000 men had been captured by the Allies. This rumor started the rounds shortly after the opening of the stock market and later when it came back to the exchange the total bag of Teutons had reached 80,000.

The other day Wall Street was watching a quiet, sober acting security market when suddenly the word went around with lightning like rapidity that a great American transport had been sunk with American troops in the submarine zone. No one could confirm the story and it was given some credence until a Stock Exchange house which had offices in a skyscraper sent out the news to the district that the "torpedoed" transport was sailing serenely up the bay under her own steam.

Curiously enough during the recent visitation of German submarines to these shores the rumor factory was comparatively idle, the only story emanating from that quarter being a rumor that six German submarines were laying to off Atlantic City getting ready to bombard the resort. Since the various exchanges banned the dissemination of rumors their point of origin has been carefully concealed so that it is next to impossible nowadays to run them down at their source.

Approach Toward Suppression Is Made

The German Kaiser, who must yield the palm only to the Crown Prince in the number of times he has been killed in this war, has been killed on the Stock Exchange time and time again since 1914. On other occasions he has died a natural death from a strange malady. There was a time when the death of the Kaiser meant to Wall Street the end of the war so that rumors of this character were often put out with a view to influencing the course of market prices. But since the Exchange banned rumor-mongering the Kaiser has not been "killed" once in the financial district.

In the markets of 1915 and 1916 reports of war orders placed with industrial companies filled Wall Street for months. Some of the rumors proved to be true, whereas others were made out of whole cloth. Periodically there came also rumors of peace proposals which on a number of occasions exerted an important influence on stock market prices. The most frequently appearing reports have been those of vessels sunk at sea. Strangely enough, on many occasions the news has come into the financial district in the form of unauthenticated rumors which later turned out to be true. When the Lusitania was sunk a Stock Exchange house sent out a report of the disaster before the real news came through and it persisted as a rumor until there was official confirmation.

It would of course be too much to say that the exchange authorities have effectively checked rumors spreading by their recent action, although undoubtedly the tendency is toward suppressing wild stories that might be harmful both to sentiment and to market values.

Crude Rubber Is Piling Up

PILING up of huge stocks of crude rubber in the Far East because of lack of ocean tonnage and the American restriction on imports is giving British rubber trade interests much trouble. According to "The London Times" the situation in Malaya and Ceylon in connection with plantation rubber production is such that steps of a much more drastic character than the arrangement of the British Rubber Growers' Association can be expected to meet are necessary.

"The 20 per cent reduction in output," it says, "to which the members of the association have loyally adhered, unfortunately opens the way to a form of profiteering on the part of non-members that to a certain extent vitiates the sacrifice and in any case complicates an already complex position to an inordinate degree. The stocks of rubber at Singapore are extremely heavy, the outcome primarily of the restriction placed upon shipments to Great Britain which limits our imports to 25,000 tons a year. The United States has restricted imports of rubber during the next three months to 25,000 tons of all varieties, or 100,000 tons per annum, of which 80,000 tons will be plantation product. At the same time America has limited the price of rubber to 2s. 7d. per pound, while in Singapore the price is nominally 1s. 8d. per pound, which, even when a liberal allowance is made for neutral freight charges between Singapore and United States Western ports, would seem to allow an excellent 'turn' to the American buyer. The limitation of the amount to be imported to the United States, however, combined with the difficulties attendant on land transports, must restrict such business.

"Meanwhile, the plantation industry is faced with the fact that, despite existing restrictions, the rubber output for the current year will not fall far short of 200,000 tons. Taking American consumption on the restricted 80,000 tons basis, and allowing half that amount for Great Britain and France, the industry will be left with an approximate surplus at the end of this year of 80,000 tons. It is not easy to state, out of hand, the part the non-controlled producers will play in creating this impossible surplus, but there is ample evidence available to show that their part will not be a negligible one. The situation then would seem to point, in the case of Malaya certainly, to the speedy initiation of a system of complete control. The Straits Settlements and Federated Malay States authorities cannot allow the rubber industry to drift into financial chaos. Rubber has brought financial prosperity to the Peninsula, and under normal conditions rubber might be trusted to maintain that prosperity. Under the abnormal conditions that now obtain it is the duty of these authorities to move quickly in the direction of formulating an effective system of control over the output of every rubber producing property, and should the authorities fail to do so the representatives of the industry in London would be justified in bringing the strongest pressure they are able to exert on the Colonial Office in order that a well-nigh intolerable position might be speedily ameliorated."

War Credits and Great Destruction Upset Foreign Exchange Stability

World Conflict Is Changing the Methods of Settling International Trade Balances and Popularizing Knowledge About Them, Yet the Underlying Principles Remain Unaltered

THE colossal difference between past and present in foreign exchange is merely in method. Measures are taken today which the financiers of four years ago—who are no other than those of to-day—would hardly have thought of. We see agreements between governments on the most intricate guestions of finance, which prior to the war were regarded as being in the domain solely of a few international exchange specialists. We see regulations made which as by magic change the entire relationship between currencies. We see the settlement of international balances by gold suspended. And yet, the basic principles of finance remain unchanged.

Foreign exchange, in its fundamentals, is the expression of a proportion between two currencies, i. e., such proportion as reflects the ratio between those currencies compared with the values they represent. By "currencies" all moneys is understood—credit balances, instruments of credit. By "values," all property, movable or immovable, merchandise and plant, is covered. It is frequently assumed that the rate of exchange expresses merely the state of the balances of payment as between two nations. This is only partially true. The state of the balances of payment is reflected in the exchange quotations, but these are not the exclusive expression of the condition of the balances of payment. The data used in this discussion were compiled by Sigmund Metz, of the Foreign Department of the Guaranty Trust Company.

The two following examples will demonstrate the relation between exchange and the state of the currency.

The Relation of Money to Values

Let us consider the hypothetical case of a country without foreign trade, but with an exclusively gold currency. The unit of such gold currency, although it will not constitute a subject for actual transactions abroad, will have a nominal quotation as expressed in another currency, in proportion to its weight and fineness. Suddenly, the same unit is decreed by the government to represent two units of the same name. The new unit evidently will not be quoted at the same nominal value. Obviously the nominal quotation will be halved. Yet no balance of payment between the two countries enters into the calculation. What has happened is that, by decree, the number of units has been doubled. Therefore, the proportion between values in that country to the number of units has also been increased. Twice the number of new units will be required to purchase the same value. Therefore, the values represented by one unit are half what they were before, and half the former number of units of the other country will be required to equal them. Thus the nominal rate of exchange on the country where this has been practised will fall.

Now let us consider another hypothetical case. Take two countries both having identical currencies. The first is peopled with a laborious race tilling the soil and living on its produce. The other has an indolent population who prefer, when the result of their labor is inadequate for their needs, to mortgage their land and live on capital. Let us investigate the state of the currency of each of those countries. The first will have a very moderate circulation, for each one will produce in the main what he needs and only for a small portion of his requirements will currency be necessary. In the other circulation has to perform a far wider service and it must supply the requirements for loans to the owners of the land, who, in their turn, pay lavishly for their personal living expenditure. In the first country a small circulation will recover much less valuable assets and the result is to render the value of units of the latter country low as expressed in units of the former. In other words, exchange on the active country would be at a premium, that on the indolent country at a discount.

The complications of this fundamental principle in practical life are endless. In the first place, the currencies of two countries, with few exceptions, are not identical. Hence the proportion becomes more complicated and, whereas in the foregoing example we have considered countries without international trade and other international financial relations, these play a very important, if not a predominant, part in the determination of the proportion just referred to.

The fundamentals of foreign exchange are the same as in the past, but the one great difference is the universal endeavor to alter the proportion which the exchange represents.

In the past this was done only on a small scale, and usually action was of a temporary nature. At present such measures are farreaching and of much wider import. Under normal conditions the relations between the currencies of two countries are affected by their balance of trade, their mutual financial relations, the position of their shipping, their insurance activities, their banking services; in short, all items that go to make up the balance of payment, by internal causes affecting the state of the currency. Before the war such payment was as a rule adjusted by gold shipments or loans.

How the Balance of Trade Affects Exchange

The main factors at present dominating foreign exchange are wholesale destruction and the use of credit in international interchange of merchandise. It is clear that, properly speaking, credit should merely be of a passing nature. In normal times commercial transactions, ultimately, are liquidated either by gold or by merchandise, and only exceptionally and chiefly, as regards new countries, by means of more or less long period loans. But at present credit is availed of on a scale altogether unprecedented.

Wholesale destruction is equivalent to a reduction of values as compared with currency; or, in other words, prices rise or the currency depreciates. On the use of credit, however, a few more words may not be amiss. Huge exports are at present being made from the United States to satisfy the requirements of materials destined to destruction in other countries. The latter countries, not being in a condition to supply an equivalent quantity of merchandise in exchange, nor to allow the export of gold—the basis of their currency system—will not succeed in finding sufficient owners of credit balances in the exporting country, or in other countries, which could be easily transferred to the United States.

There are, therefore, but two alternatives: To allow the price of United States currency, as expressed in units of the other currency, to rise to such a level (in other words, to allow the value of its own currency to fall in the United States to such a level) that capitalists in the United States would find it profitable to acquire credit balances in the other country—would be prepared to give dollars, credit balances in their own country, in exchange for credit balances in the other country. But the importing country, jealous of its exchange position, does not wish to see its own units thus discredited by exchange quotations. It will, therefore, endeavor to acquire a credit in the United States. In other words, it will seek to defer the fulfilment of its obligations. The immediate result is that the necessity for acquiring remittances on the United States has ceased for the moment, or, rather, that the demand for such credit balances can now be supplied. This is the case between Great Britain and the United States.

Credit Hurts Exchange Rates

Exchange ostensibly, therefore, should remain unaltered. But we must also consider the position in the exporting country, in this case the United States. Here a credit balance has been created and applied to the payment of goods that have left the country. Therefore, values have diminished as compared with currency. An element has, therefore, been introduced tending to turn the exchange against the United States, the proportion between currency and values having been distributed so as to render less values equal to the same amount of currency. This is tantamount to a decline in the value of money or a rise in prices. Higher prices stimulate imports and discourage exports. Hence they tend to turn the commercial balance against the country, which in its turn would react unfavorably on exchange, inasmuch as more imports require greater remittances to foreign countries. The country which gives credit is thus introducing an element unfavorable to its exchange, active in proportion to the magnitude of such credits, as compared to other values in the country.

In examining exchange quotations in the United States we find that all the exchange of Allied countries are in its favor. In other words, less than the par value in the United States dollars need be given for the unit of currency of Allied countries. On the other hand, all neutral exchanges are against the United States. Yet this country has a tremendous export surplus, against which, of course, have to be put the purchases effected by the United States abroad of American securities held by American investors. It is not to be assumed, however, that even so the total balance of payment could have been against the United States. In other words, it is to be assumed that the United States had to remit abroad more than it had to receive from abroad. The premium which the American dollar commands in Allied countries is, therefore, easily explained; but the discount of American dollars in neutral countries would seem to indicate that the balance of payment alone is not sufficient to explain the position of exchanges, and that we have to regard this problem from the wider point of view of the condition of the currency of each country; in other words, the proportion of currency to values. The whole question of the issuance of government securities comes under this definition. Government securities to a large extent, are avilable currency. In so far as they are not paid for out of existing credit balances or out of funds hoarded, they must be paid for by the creation of fresh credit balances, which perform the same function as actual currency.

The position of neutral exchanges on the United States seems to indicate that the price level of those countries has not arisen in the same proportion as in the United States. As regards the United States and the other belligerents, the inverse is the case. It would, therefore, be reasonable to assume that the heavy loans made by the United States to belligerents—preponderantly to the Allies—are a considerable factor in producing the depreciation of American exchange in neutral countries. The country granting the credit assumes for the time being the burden which should normally have been undertaken by the importing country, which would then have had to look for the means of satisfying the credit balance in favor of the exporting country.

Loans Merely Defer Payments

At the same time, though the loans momentarily favor the exchange on the country to whom they have been granted, the seeds for the future deterioration of the latter country's exchange position are sown. For the merchandise it has been able to purchase with the aid of credit will be consumed, but interest and redemption of the credit must be provided for. In other words, credit balances in favor of the country which has been granted that credit are constantly created, to liquidate which credit balances on the creditor country have to be bought; that is to say, there will be a demand for exchange on the creditor country. Besides, there is the overhanging knowledge that repayment has to be made some day, which causes speculators to acquire credit balances in the creditor country in advance. Hence a credit abroad, while momentarily alleviating the situation, ultimately tends to inflation in the borrowing country. In the lending country the reverse process manifests itself. Values are produced to replace those exported, and interest payments received on the loan gradually tend to reduce the modification of the proportion between values and currency originally occasioned by the exportation of merchandise against the loan. Hence the tendency is toward the reduction of inflation.

At the present time we see large sums lent by Britain to financially weaker nations among the Allies. In its turn the United States has made loans, both directly by the government and indirectly through financial institutions to the Allies. They represent the creation of credit balances that can be converted into curency. They are like big pools of available currency temporarily added to the big pool of currency representing the country's values. But all these additions to available currency in their turn cause values to rise and more currency is needed to obtain the same values.

Only production, strenuous and incessant, can palliate this evil, which accounts for the increasing cost of the war and of social unrest throughout the world. That a tremendous proportion of production is destined to destruction largely defeats all efforts to combat this evil, which, so long as the war lasts, it will not be possible entirely to banish. It will continue until the labor of humanity can again be devoted to production and genuine consumption.